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Public Utility Commission of Texas

Texas Universal Service Fund

Required Communications and Management Letter

For the Year Ended August 31, 2020

Public Utility Commission of Texas
Austin, TX

We have audited the financial statements of the governmental activities of the Texas Universal Service Fund (the Fund) for the year ended August 31, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Fund are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the period ending 8/31/2020. We noted no transactions entered into by the Fund during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Significant accounting estimates used by the Fund's management include the allowance for doubtful accounts. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no known or likely misstatements identified during our audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 22, 2021.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

In planning and performing our audit of the financial statements of the governmental activities of the Texas Universal Service Fund as of and for the year ended August 31, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the Fund’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control that we consider to be significant deficiencies.

CURRENT YEAR COMMENTS – NONE

Public Utility Commission of Texas - Management Plan for TUSF

In December of 2020, the disbursement process was amended in order to accommodate the lower fund balance and maintain a minimum fund balance of \$4.0 million. Disbursements defined in the amendment as “first priority” are to be made before any other disbursements. If there is money in the TUSF after paying the first priority disbursements for the month, disbursements awarded under Public Utility Regulatory Act §56.025(a) are then paid, followed by disbursements awarded under Public Utility Regulatory Act §56.025(c). If there is more than \$4.0 million in the fund after the first priority disbursements, and §56.025(a)&(c) support are paid, any amount over \$4.0 million must be used towards the Texas High Cost Universal Service Plan monthly support payments, Texas High Cost Universal Service Plan for Uncertificated Areas monthly support payments, and Small and Local Rural Incumbent Local Exchange Company Universal Service Plan monthly support payments. These payments are prorated based on the percentage of the support payments the fund will support, up to 100%, while maintaining a minimum \$4.0 million fund balance.

CONCLUSION

We hope the above comments are beneficial. We would welcome the opportunity to provide additional information or assistance regarding internal controls or enhancement of operational efficiency or to assist in the implementation of suggestions or recommendations made during our audit.

Our audit procedures required us to obtain an understanding of controls over primary systems affecting the financial statement amounts. The Fund may be able to benefit from additional, in-depth reviews of internal controls in other areas. We look forward to discussing opportunities to continue to assist the Fund.

This information is intended solely for the use of the Public Utility Commission of Texas and management of the Texas Universal Service Fund and is not intended to be and should not be used by anyone other than these specified parties.

Hurlbert CPA LLC

January 22, 2021

Hurlbert CPA, LLC
Liberty, MO

Public Utility Commission of Texas

Texas Universal Service Fund

Independent Auditor's Report

And

Independent Auditor's Report on Internal Control
Over Compliance and Other Matters based on an
Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

For the years August 31, 2020 and August 31, 2019

Independent Auditor's Report

Public Utility Commission of Texas
Austin, TX

Report on the Financial Statements

We have audited the accompanying financial statements of the Texas Universal Service Fund (TUSF), a special revenue fund of the state of Texas administered by Solix, Inc. (Solix), as of and for the years ended August 31, 2020 and 2019, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

As discussed in Note 2, the financial statements present only the TUSF and do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2020 and 2019, and the changes in its financial position for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Texas Universal Service Fund as of August 31, 2020 and 2019, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2019 on our consideration of Solix as fund administrator for TUSF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Other Matters

Required Supplementary Information

Generally accepted accounting principles in the United States require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Texas Universal Service Fund's basic financial statements. The Statement of Cash Flows is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting records used to prepare the financial statements. The Statement of Cash Flows has not been subjected to the auditing procedures applied in the audit of the Basic Financial Statements and, accordingly, we do not express an opinion or provide any assurance on it.

Hurlbert CPA LLC

January 22, 2021
Hurlbert CPA, LLC
Liberty, MO

**TEXAS UNIVERSAL SERVICE FUND
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019**

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of the Texas Universal Service Fund’s (TUSF) annual financial report represents our discussion and analysis of the TUSF’s financial performance during the fiscal years that ended on August 31, 2020 and 2019. It should be read in conjunction with the TUSF’s financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – management’s discussion and analysis and the basic financial statements. The basic financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data.

COMPARATIVE CONDENSED FINANCIAL INFORMATION

	(In Thousand)	
	2020	2019
Cash and cash equivalents	\$ 51,098	\$ 130,193
Receivable from contributors	10,085	12,065
Total Assets	<u>61,183</u>	<u>142,258</u>
Payable to service providers	34,824	30,764
Payable to contributors	-	60
Accounts payable and accrued expenses	182	115
Total Liabilities	<u>35,006</u>	<u>30,939</u>
Fund Balance, Restricted	26,177	111,319
Total Liabilities and Fund Balance	<u>\$ 61,183</u>	<u>\$ 142,258</u>
Contributions	\$ 124,790	\$ 148,910
Interest income	1,014	3,472
Miscellaneous Income	-	-
Total Operating Revenue	<u>125,804</u>	<u>152,382</u>
Amounts paid and due to service providers	209,982	208,880
Administrative costs	895	916
Bad debt expenses (recoveries)	69	20
Total Operating Expenses	<u>210,946</u>	<u>209,816</u>
Change in Fund Balance	<u>\$ (85,142)</u>	<u>\$ (57,434)</u>

FINANCIAL HIGHLIGHTS

The TUSF restricted fund balance as of August 31, 2020 and 2019 was approximately \$26 million and \$111 million, respectively. The TUSF total contributions for fiscal years 2020 and 2019 were approximately \$125 million and \$149 million, respectively. The TUSF interest income for fiscal years 2020 and 2019 was approximately \$1 million and \$3 million, respectively. The TUSF total amounts paid and due to service providers for fiscal years 2020 and 2019 were approximately \$210 million and \$209 million, respectively. The TUSF total administrative costs for fiscal years 2020 and 2019 were approximately \$895 thousand and \$916 thousand, respectively. The TUSF total bad debt expenses for fiscal years 2020 and 2019 were approximately \$69 thousand and \$20 thousand, respectively.

As of August 31, 2020, the TUSF had net payables of approximately \$24.921 million. This consists of the net receivable from contributors of \$10.085 million (net of allowance for doubtful accounts of \$1.365 million), payable to service providers of \$34.824 million, and accounts payable and accrued expenses of \$182 thousand. This compares to a net payable of \$18.874 million as of August 31, 2019, which consisted primarily of net receivable from contributors of \$12.065 million (net of allowance for doubtful accounts of \$1.296 million), payable to service providers of \$30.764 million, payable to contributors of \$60 thousand, and accounts payable and accrued expenses of \$115 thousand. The TUSF maintained an adequate cash flow and balance of funds to satisfy all obligations.

Public Utility Commission of Texas - Management Plan for TUSF

In December of 2020, the disbursement process was amended in order to accommodate the lower fund balance and maintain a minimum fund balance of \$4.0 million. Disbursements defined in the amendment as “first priority” are to be made before any other disbursements. If there is money in the TUSF after paying the first priority disbursements for the month, disbursements awarded under Public Utility Regulatory Act §56.025(a) are then paid, followed by disbursements awarded under Public Utility Regulatory Act §56.025(c). If there is more than \$4.0 million in the fund after the first priority disbursements, and §56.025(a)&(c) support are paid, any amount over \$4.0 million must be used towards the Texas High Cost Universal Service Plan monthly support payments, Texas High Cost Universal Service Plan for Uncertificated Areas monthly support payments, and Small and Local Rural Incumbent Local Exchange Company Universal Service Plan monthly support payments. These payments are prorated based on the percentage of the support payments the fund will support, up to 100%, while maintaining a minimum \$4.0 million fund balance.

2020 AND 2019 COMPARISON

Management notes the following six line items with significant variances between balances in 2020 and 2019: 1) Cash and cash equivalents; 2) Receivable from contributors; 3) Payable to service providers; 4) Contributions; 5) Interest income; and 6) Amounts paid and due to service providers.

Cash and cash equivalents

The decrease in Cash and cash equivalents is the result of the excess of payments over receipts in fiscal year 2020.

Receivable from contributors

The decrease in Receivable from contributors is largely due to lower revenue.

Payable to service providers

The increase in Payable to service providers is due to an increase in disbursements to eligible telecommunications service providers and other qualified recipients.

Interest income

The decrease in Interest income is due to a decrease in Cash and cash equivalents and lower interest rate. The average annualized interest rate decreased from 2.22% in 2019 to 1.16% in 2020.

Contributions

The decrease in Contributions is due to lower taxable telecommunications receipts as demand has been dropping. The assessment rate remained the same in 2020.

Amounts paid and due to service providers

The increase in Amounts paid to service providers is primarily due to an increase in disbursements to eligible telecommunications service providers and other qualified recipients. The increase in support program participation also contributed to the increase.

TEXAS UNIVERSAL SERVICE FUND

BALANCE SHEETS

AS OF AUGUST 31, 2020 AND 2019

(in thousands)

ASSETS	<u>2020</u>	<u>2019</u>
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	\$ 51,098	\$ 130,193
Receivable from contributors, net of allowance for doubtful accounts of \$1,365 and \$1,296 (Note 2)	<u>10,085</u>	<u>12,065</u>
Total Current Assets	<u>\$ 61,183</u>	<u>\$ 142,258</u>
 LIABILITIES AND FUND BALANCE		
CURRENT LIABILITIES:		
Payable to service providers (Note 1)	\$ 34,824	\$ 30,764
Payable to contributors (Note 3)	-	60
Accounts payable and accrued expenses	<u>182</u>	<u>115</u>
Total Current Liabilities	<u>35,006</u>	<u>30,939</u>
Fund Balance - Restricted	<u>26,177</u>	<u>111,319</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 61,183</u>	<u>\$ 142,258</u>

The accompanying notes are an integral part of these financial statements.

TEXAS UNIVERSAL SERVICE FUND

STATEMENTS OF REVENUES, EXPENSES, AND FUND BALANCE

FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019

(in thousands)

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES:		
Contributions (Note 3)	\$ 124,790	\$ 148,910
Interest income	<u>1,014</u>	<u>3,472</u>
Total operating revenues	<u>125,804</u>	<u>152,382</u>
 OPERATING EXPENSES:		
Amounts paid and due to service providers (Note 4)	209,982	208,880
Administrative costs (Note 5)	895	916
Bad debt expenses	<u>69</u>	<u>20</u>
Total operating expenses	<u>210,946</u>	<u>209,816</u>
 Net decrease in restricted fund balance	 (85,142)	 (57,434)
 FUND BALANCE - Restricted, beginning of year	 <u>111,319</u>	 <u>168,753</u>
 FUND BALANCE - Restricted, end of year	 <u>\$ 26,177</u>	 <u>\$ 111,319</u>

The accompanying notes are an integral part of these financial statements.

TEXAS UNIVERSAL SERVICE FUND
NOTES TO FINANCIAL STATEMENTS
August 31, 2020 and 2019
(IN THOUSANDS)

(1) GENERAL

In December 1997, the Public Utility Commission of Texas (PUCT) adopted new Substantive Rules, which provided for the implementation of the Texas Universal Service Fund (TUSF). The purpose of the TUSF is to enable all residents of Texas to obtain basic telecommunications services needed to communicate with other residents, businesses, and government entities. The TUSF provides support for the provision of basic local telecommunications services at reasonable rates in high cost rural areas and assists qualifying low-income customers and customers with certain disabilities in gaining access to the public telephone network.

The TUSF currently consists of the following programs: the Texas High Cost Universal Service Plan (THCUSP), the Small and Rural Incumbent Local Exchange Carrier Universal Service Plan (Small & Rural ILEC), Implementation of Public Utility Regulatory Act §56.025 (PURA), Tel-Assistance, Additional Financial Assistance (AFA), Telecommunications Relay Service (TRS), the Specialized Telecommunications Assistance Program (STAP), Lifeline and reimbursement for certain IntraLATA Services Support, and 56.025 FUSF Loss Recovery.

The TUSF reimburses qualifying companies for Lifeline credits, the contracted carrier for providing statewide TRS and authorized vendors for providing specialized telecommunications devices to individuals with physical disabilities. The TUSF also reimburses the Texas Commission for the Deaf and Hard of Hearing (HHSC), the Texas Low Income Data Administrator (LIDA), National Federation of the Blind of Texas (NFB), the TUSF administrator and the PUCT for costs directly and reasonably associated with the provisions of the TUSF.

The TUSF assessment is collected from telecommunications service providers and paid, via a monthly remittance, to Solix, Inc. which was selected by the PUCT to act as Administrator of the Fund. For fiscal years 2020 and 2019, the assessment rate was set by the PUCT at 3.3% of taxable telecommunications receipts.

Public Utility Commission of Texas - Management Plan for TUSF

In December of 2020, the disbursement process was amended in order to accommodate the lower fund balance and maintain a minimum fund balance of \$4.0 million. Disbursements defined in the amendment as “first priority” are to be made before any other disbursements. If there is money in the TUSF after paying the first priority disbursements for the month, disbursements awarded under Public Utility Regulatory Act §56.025(a) are then paid, followed by disbursements awarded under Public Utility Regulatory Act §56.025(c). If there is more than \$4.0 million in the fund after the first priority disbursements, and §56.025(a)&(c) support are paid, any amount over \$4.0 million must be used towards the Texas High Cost Universal Service Plan monthly support payments, Texas High Cost Universal Service Plan for Uncertificated Areas monthly support payments, and Small and Local Rural Incumbent Local Exchange Company Universal Service Plan monthly support

payments. These payments are prorated based on the percentage of the support payments the fund will support, up to 100%, while maintaining a minimum \$4.0 million fund balance.

(2) ACCOUNTING POLICIES

Basis of Presentation

These statements were prepared on the accrual basis in accordance with standards promulgated by the Governmental Accounting Standards Board (GASB), for the periods presented. Contributors are permitted to file their monthly remittances disclosing revenues on either a cash or accrual basis. The financial statement caption of “receivable from contributors” on the statements of net assets, as well as the “contributions” on the statements of revenues, expenses and net assets, are understated by the difference of what is reported by the contributors reporting on a cash basis versus what would be reported by the contributors if they utilized the accrual basis. The TUSF’s financial statement presentation reflects the direct method of cash flows according to GASB No. 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments”.

Cash & Cash Equivalents

All highly liquid securities, purchased with maturity of three months or less, are considered cash equivalents. Surplus funds of the TUSF were invested in institutional money market funds and, beginning in October 2016, also in a Federally Insured Cash Account (FICA) product. FICA allocates funds to FDIC insured financial institutions in a manner to ensure no institution receives more than the \$250,000 FDIC insurance limit. All interest is credited to the TUSF when earned. The average annualized interest rates for fiscal years 2020 and 2019 were 1.16% and 2.22%, respectively.

Special Revenue Fund

The TUSF is considered a special revenue fund of the State of Texas. The financial statements presented are not a reflection of the financial position or changes in financial position of the State of Texas.

Allowance for Doubtful Accounts

Allowance for Doubtful Accounts amounted to \$1,365 and \$1,296 at August 31, 2020 and 2019, respectively to provide for anticipated uncollectible amounts from certain contributors.

Revenue Recognition

Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The TUSF considers revenues to be available if they are collected within sixty days of the end of fiscal year.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

(3) NET ASSESSMENTS AND SUPPORT

Net assessments reflect amounts paid or due from the contributors to the TUSF. The gross assessments for fiscal years 2020 and 2019 were \$124,790 and \$148,910, respectively. The difference between the gross assessments and the amounts received from contributors is the result of local exchange carriers netting support payments against their gross assessments due.

(4) DISBURSEMENTS TO QUALIFIED RECIPIENTS

Disbursements to eligible telecommunications service providers and other qualified recipients are made by Solix, Inc. as directed by the PUCT. During fiscal years 2020 and 2019, the total disbursements were \$209,982 and \$208,880, respectively. Included in the total are the following payments:

	2020	2019
THCUSP	\$86,870	\$84,978
Small & Rural ILEC	84,121	80,585
FUSF Loss Recovery	2,358	5,891
Lifeline	6,292	9,542
TRS	1,599	1,849
PURA	2,319	2,319
STAP	16,473	13,014
Intralata Support	214	274
TCDHH (HHSC)	1,086	1,083
PUCT	486	630
LIDA	7,691	8,245
Tel-Assistance	1	2
NFB	468	468
	<u>\$209,982</u>	<u>\$208,880</u>

(5) **ADMINISTRATIVE COSTS**

Administrative costs include amounts paid and due to the TUSF administrator as well as external audit fees. In accordance with the contract between the PUCT and Solix, Inc., Solix, Inc. is reimbursed a fixed amount each fiscal year plus any allowable variable costs. For the fiscal years ended August 31, 2020 and 2019, administrative costs were as follows:

	<u>2020</u>	<u>2019</u>
Solix Administrative Fees	\$856	\$877
External Audit	<u>39</u>	<u>39</u>
Total Administrative Costs	<u>\$895</u>	<u>\$916</u>

(6) **INCOME TAXES**

These financial statements present the activities of the TUSF, which are tax-exempt since the TUSF is a “Special Revenue Fund” of the State of Texas, and therefore not subject to Federal or State income taxes or sales, use, gross receipts or other taxes. As such, no provision for taxes has been reflected in the accompanying financial statements.

(7) **SUBSEQUENT EVENTS**

Solix has evaluated subsequent events through January 22, 2021, the date which the financial statements were available to be issued.

Public Utility Commission of Texas - Management Plan for TUSF

In December of 2020, the disbursement process was amended in order to accommodate the lower fund balance and maintain a minimum fund balance of \$4.0 million. Disbursements defined in the amendment as “first priority” are to be made before any other disbursements. If there is money in the TUSF after paying the first priority disbursements for the month, disbursements awarded under Public Utility Regulatory Act §56.025(a) are then paid, followed by disbursements awarded under Public Utility Regulatory Act §56.025(c). If there is more than \$4.0 million in the fund after the first priority disbursements, and §56.025(a)&(c) support are paid, any amount over \$4.0 million must be used towards the Texas High Cost Universal Service Plan monthly support payments, Texas High Cost Universal Service Plan for Uncertificated Areas monthly support payments, and Small and Local Rural Incumbent Local Exchange Company Universal Service Plan monthly support payments. These payments are prorated based on the percentage of the support payments the fund will support, up to 100%, while maintaining a minimum \$4.0 million fund balance.

SUPPLEMENTARY INFORMATION

TEXAS UNIVERSAL SERVICE FUND

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019

(in thousands)

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Contributors	\$ 129,447	\$ 157,931
Payments for Telecommunication Programs	(208,729)	(207,877)
Payments for Administrative Costs	<u>(827)</u>	<u>(916)</u>
Net Cash Used by Operating Activities	(80,109)	(50,862)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Income	<u>1,014</u>	<u>3,472</u>
Net Cash Provided by Investing Activities	1,014	3,472
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(79,095)</u>	<u>(47,390)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>130,193</u>	<u>177,583</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 51,098</u>	<u>\$ 130,193</u>
Reconciliation of Decrease in Fund Balance to Net Cash from Operating Activities:		
Decrease in Restricted Fund Balance	\$ (85,142)	\$ (57,434)
Less: Interest Income	(1,014)	(3,472)
Change in Operating Assets and Liabilities:		
Decrease in Accounts Receivable - Contributors	1,980	8,977
Increase in Payable to Service Providers	4,060	1,014
Increase (Decrease) in Payable to Contributors	(60)	52
Increase in Accounts Payable and Accrued Expenses	<u>67</u>	<u>1</u>
Net Cash Used by Operating Activities	<u>\$ (80,109)</u>	<u>\$ (50,862)</u>

The accompanying notes are an integral part of these financial statements.

**Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

Solix, Inc. as administrator for the Texas Universal Service Fund

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of the Texas Universal Service Fund (TUSF), as of and for the years ended August 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise TUSF's basic financial statements, and have issued our report thereon dated January 22, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Solix, Inc.'s (Solix's) internal control, in its role as administrator for the Texas Universal Service Fund (TUSF), over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Solix's internal control over financial reporting, in its role as administrator for the TUSF. Accordingly, we do not express an opinion on the effectiveness of the Solix's internal control over financial reporting, in its role as administrator for the TUSF.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance whether the TUSF's financial statements are free of material misstatement, we performed tests of compliance of Solix as administrator for the TUSF with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of the Administrator, Contract Administrator, the Public Utility Commission of Texas and is not intended to be and should not be used by anyone other than these specified parties.

Hurlbert CPA LLC

January 22, 2021
Hurlbert CPA, LLC
Liberty, MO

Public Utility Commission of Texas

Texas Universal Service Fund

SSAE #18 - Report on the Description of System, Suitability of Design and Operating Effectiveness of Controls for the year ended August 31, 2020

Section I

Independent Service Auditor's Report on a Description of a Service Organization's System and the Suitability of the Design and Operating Effectiveness of Controls

To the Public Utility Commission of Texas:

Scope

We have examined Solix's description of its Texas Universal Service Fund Administrative Management System (TUSFAMS) for processing and reporting transactions throughout the period September 1, 2019 through August 31, 2020 and the suitability of the design of controls to achieve the related control objectives stated in the description.

Solix Responsibility

In section II, Solix has provided an assertion about the fairness of the presentation of the description and suitability of the design of the controls to achieve the related controls objectives stated in the description. In section III, Solix has prepared the description of their system. Solix, responsible party, is responsible for their assertion, including the completeness, accuracy, and method of presentation of the description and the assertion, providing the services covered by the description, specifying the control objectives and stating them in the description, identifying the risks that threaten the achievement of the control objectives, selecting the criteria, and designing, implementing, and documenting controls to achieve the related control objectives stated in the description.

Service Auditor's Responsibilities

Our responsibility is to express an opinion on the fairness of the presentation of the description and on the suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the description, based on our examination. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform our examination to obtain reasonable assurance about whether, in all material respects, the description is fairly presented, and the controls were suitably designed and operating effectively to achieve the related control objectives stated in the description throughout the period September 1, 2019 through August 31, 2020.

An examination of a description of a service organization's system and the suitability of the design and operating effectiveness of the service organization's controls to achieve the related control objectives stated in the description involves performing procedures to obtain evidence about the fairness of the presentation of the description and the suitability of the design and operating effectiveness of those controls to achieve the related control objectives stated in the description. Our procedures included assessing the risks that the description is not fairly presented and that the controls were not suitably designed or operating effectively to achieve the related control objectives stated in the description. Our procedures also included testing the operating effectiveness of those controls that we consider necessary to provide reasonable assurance that the related control objectives stated in the description were achieved. An examination engagement of this type also includes evaluating the overall presentation of the description and the suitability of the control objectives stated therein, and the suitability of the criteria specified by the service organization and described at page one of the assertion. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Inherent Limitations

Because of their nature and inherent limitations, controls at Solix may not prevent, or detect and correct, all errors or omissions processing and reporting transactions. Also, the projection to the future of any evaluation of the fairness of the presentation of the description, or conclusion about the suitability of the design or operating effectiveness of the controls to achieve the related control objectives is subject to the risk that controls at a service organization may become inadequate or fail.

Opinion

In our opinion, in all material respects, based on the criteria described in Solix's assertion in Section II,

1. the description fairly presents the Texas Universal Service Fund Administrative Management System was designed and implemented throughout the period of September 1, 2019 through August 31, 2020.
2. the controls related to the control objectives stated in the description were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period of September 1, 2019 through August 31, 2020,
3. the controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved and operated effectively throughout the period of September 1, 2019 through August 31, 2020, and
4. Solix management has placed into operation an assessment process to identify and manage risks.

Description of Tests of Controls

The specific controls tested, and the nature, timing, and results of those tests are listed in Section IV.

Restricted Use

This report, including the description of tests of controls and results thereof in Section IV, is intended solely for the information, and use of Public Utility Commission of Texas during some or all of the period September 1, 2019 through August 31, 2020 when assessing the risks of material misstatements of the financial statements of the Texas Universal Service Fund. This report is not intended to be and should not be used by anyone other than the Public Utilities Commission of Texas.

Hurlbert CPA LLC

Hurlbert CPA
Liberty, Missouri
January 21, 2021

SECTION II
ASSERTIONS BY SOLIX, INC. MANAGEMENT

SECTION II – ASSERTION BY SOLIX, INC. MANAGEMENT

We have prepared the description of the Texas Universal Service Fund Administrative Management System (TUSFAMS) for the Public Utility Commission of Texas (PUCT) during the period September 1, 2019 through August 31, 2020 and for the PUCT auditor, Hurlbert CPA who has a sufficient understanding to consider it, along with other information, including information about controls implemented by Solix, when assessing the risks of material misstatements of Solix's financial statements.

We confirm, to the best of our knowledge and belief, that

1. The description fairly presents the Texas Universal Service Fund Management System made available to users of the system during the period September 1, 2019 through August 31, 2020 for processing their transactions. The TUSFAMS also must comply with contract provisions between Solix and the PUCT. The criteria we used in making this assertion were that the description included the "Operational and Administrative Procedures" that described the Control Objectives and Control Techniques.
2. The description includes relevant details of changes to Solix's system during the period covered by the description which is September 1, 2019 through August 31, 2020.
3. The controls related to the control objectives stated in the description were suitably designed and operated effectively throughout the period September 1, 2019 through August 31, 2020 to achieve those control objectives. The criteria we used in making this assertion were that
 - a. The risks that threaten the achievement of the control objectives stated in the description have been identified by Solix
 - b. The controls identified in the description would, if operating as described, provide reasonable assurance that those risks would not prevent the control objectives stated in the description from being achieved; and
 - c. The controls were consistently applied as designed, including whether manual controls were applied by individuals who have the appropriate competence and authority.

The TUSFAMS was designed and implemented by Solix to administer various State telecommunications funds across the United States and Puerto Rico. Specifically, the TUSFAMS was designed in accordance with the administrative contract signed with the Public Utility Commission of Texas (PUCT) to manage the administration of the Texas Universal Service Fund. The contract with the PUCT was finalized on August 30, 2019. This contract (CONTRACT No. 473-19-00006) is for assistance in administering the Texas Universal Service Fund is between the Public. Utility Commission (PUCT) of Texas, a duly organized agency of the state of Texas with its office located at 1701 N. Congress Ave., Austin, TX 78701 and Solix Inc. (Solix) located at 10 Lanidex Plaza, Parsippany, NJ 07054.

Solix has designed a set of control objectives and techniques to administer the Texas Universal Service Fund and other funds or processes for clients. Solix Inc. ("Solix") shall provide professional assistance to the Public Utility Commission of Texas ("PUCT") in performing the administrative duties required by the Public Utility Regulatory Act ("PURA") Chapter 56 and Public Utility Commission of Texas Substantive Rules 26.401, 26.403, 26.404, 26.406, 26.408, 26.410, 26.412, 26.414, 26.415, 26.420, 26.421, 26.422, 26.423, and 26.424.

SECTION III
DESCRIPTION OF CONTROLS PROVIDED BY SOLIX, INC.

SECTION III DESCRIPTION OF CONTROLS PROVIDED BY SOLIX, INC.

1. Introduction

This report describes the control structure of Solix, Inc. (“Solix” or the “Company”) as it relates to the Texas Universal Service Fund (TUSF). The purpose of the report is to provide information to the Public Utility Commission of Texas (PUCT), and their respective auditors that rely upon the services described herein.

2. Overview of Operations and Control Objectives

The Company is a business process outsourcing firm headquartered in Parsippany, NJ, that serves government and commercial clients through its portfolio of program administration, qualification processing and customer care solutions. The Company’s core qualification processes manage eligibility determinations for applications of enrollment-based programs that collectively represent billions of dollars per year.

- The company has served as the Administrator of the TUSF since 1999. Solix shall provide professional assistance to the PUCT in administering the TUSF. Solix’s general duties include but are not limited to:
- Managing daily operations and affairs of the TUSF in an efficient, fair, and competitively neutral manner,
- Taking steps necessary to ensure that all eligible telecommunication providers (ETPs) are in compliance with the relevant requirements under which they are receiving universal service support,
- Calculating and collecting the proper assessment amount from every telecommunications provider and verifying that all telecommunications providers are in compliance with the Public Utility Regulatory Act 56.022,
- Disbursing the proper support amounts, ensuring that only eligible recipients receive funds, and verifying that all recipients are in compliance with requirements,
- Submitting periodic summary reports to the PUCT regarding the administration of the TUSF,
- Notifying the PUCT of any telecommunications provider that are in violation of any of the requirements of PUCT Substantive Rules Sub. Rule 26.420, Rule 26.417 and any reporting requirements and
- Performing any other duties as determined by the PUCT.

3. Control Environment

The Company’s organizational structure provides an overall framework for planning, directing, and controlling enterprise-wide operations. It relates to controls over the execution of transactions, services, and operations and assigns authority and responsibility to provide for applicable staffing, segregation of duties, efficiency of operation, and concentration of knowledge and skills.

It is the policy of the Company to conduct business in accordance with the highest ethical, moral, and legal standards. The Business Ethics and Code of Conduct (“Code”) applies to all directors, officers, managers, agency temps, consultants, and employees (collectively “Employees”) of the Company Functions within the State and Local Government Programs.

In addition, Directors and Employees are required to annually file the disclosure of potential conflicts of interest with Solix’s Corporate Compliance Officer.

Corporate Support

- Administration
- Benefits and Corporate Development
- Corporate Communication
- Corporate Compliance
- Corporate Security
- Facilities
- Finance and Procurement
- Human Resources
- Information Technology
- Internal Audit
- Legal
- Mailroom

The Company has documented procedures and controls in place for hiring, training, evaluating, promoting, and compensating their employees as well as providing them the resources necessary to perform their assigned responsibilities. Human Resources has procedures in place to review applicants and conduct an initial screening interview with candidates that meet the minimum requirements for the job. Once a candidate has been identified as a final candidate and an offer of employment has been extended, Human Resources conduct a background reference check. Employment offers are contingent on the successful outcome of the background reference check. Related competencies, relevant work experience and/or educational background for the anticipated position are important criteria for hiring personnel. Reviewers must complete a training class, on-the-job training, and follow-up training to develop and enhance their skills in his or her current position. There are also management tools to monitor production and quality.

The Company’s personnel are provided with several alternatives for sharing concerns as it relates to their working environment. There is an easy-to-use vehicle in order to convey thoughts and ideas while interacting with the Company’s CEO and members of the Senior Leadership Team. In addition, the employee may report his or her concerns to EthicsPoint, a third-party administrator contracted by the Company for use by its employees to report any ethics violations that will be kept confidential to the extent consistent with company needs and the requirements of laws, rules, and regulations. There is annual training and certification.

4. Risk Assessment

The Company’s management has placed into operation an assessment process to identify and manage risks. This process requires management to identify significant risks in their areas of responsibility and to implement applicable measures to address these risks. Risk and control concerns identified by audit staff or external auditors are also evaluated.

The Company's activities are subjected to a continual internal audit program. Internal audits are conducted by an external Public Accounting Firm under the direction of the Audit Committee of the Company's Board of Directors and the firm has unrestricted access to all functional and operational areas within the Company. The activities of the external Public Accounting Firm are conducted in accordance with an audit plan which is approved by the Audit Committee. The audit plan is developed with appropriate consideration given to regulatory factors, prior audit results, external audit findings, risk exposure and input from relevant members of management. The audit program is designed to evaluate compliance with policies, procedures, applicable laws, and regulations to which the Company and its customers are subject. The Audit Committee meets periodically to monitor progress compared to the audit plan. Audit findings are documented in formal written reports which are submitted to members of management and the Audit Committee. Management is then required to submit, within a specified period, a written response which discusses the intended resolution of reported items. Corrective action is required to be taken and results are followed up by the Audit Committee.

5. Monitoring

The Company's management monitors the quality of internal control performance as a normal part of their activities. To provide information to management in this monitoring, a series of management reports have been implemented, which measure the results of various processes.

Management reports include details on the Company's achievement of service levels and are reviewed daily weekly or monthly by applicable levels of management. Action is taken, as necessary.

The Corporate Compliance Office is established to foster an environment of ethical conduct and compliance with laws and regulations. The responsibilities include monitoring the Company's operations for compliance with laws, regulations, and Company policies. The Compliance Office monitors information security, including overall management of the Company's vulnerability risk assessments and penetration testing. Compliance monitors key attestations of compliance. The Compliance Office works with management to implement changes in order to prevent, correct or reduce the risk of non-compliance.

6. Information and Communication

The Company has implemented various methods of communication to facilitate the understanding of their individual roles and responsibilities. The Company ensures that significant events and policy and procedures changes are properly communicated in a timely manner.

These methods include orientation and training programs for new hires, periodic training sessions, the use of electronic mail messages to communicate time-sensitive messages, and the posting of policies and procedures on the Company's Intranet. Managers also hold regular staff meetings to communicate important matters. Staff is responsible for and encouraged to communicate significant concerns or issues to an appropriate management level within the organization in a timely manner.

The Compliance Office provides a Company-wide effort to raise awareness among all Staff to act ethically and ensure compliance with legal and regulatory guidelines and Company policies. The Compliance Office annually updates information security and other major policies and conducts awareness training on these topics with all Staff.

7. Description of Computerized Information Systems

The Company's Information Systems environment, relevant to the scope of the services described in this report, is critical to the support of accurate, timely and secure processing of the Company's data. In recognition and appreciation of its importance, the Company has implemented policies and procedures to enforce the integrity of its systems.

Information Technology Infrastructure

Physical Access

Controlling physical access to the Company's facilities and areas that contain data is a key defense to protecting the Company's data and operations. The Company utilizes numerous security measures to protect the physical access of its building and the safety of all personnel entering the facility. Access to the building and restricted areas are controlled using an electronic access control system (AMAG). The system records successful and failed entries through all entry points and can be used to investigate security breaches throughout the facility. Entry into the facility by employees and contractors is prohibited without the use of the Company-issued electronic access cards.

Visitors entering the facility must have valid government-issued identification and are always required to have an employee escort. All entry/exit points in the building are monitored by a surveillance system which is not accessible by visitors. The surveillance system is monitored by a receptionist during normal working hours. After hour and weekend access to the building is controlled by a separate Solix only electronic pad. Only employee badges will activate the door after hours.

The Company's communication center located in Building 10 is always locked, and access is restricted by keycard access for authorized personnel only. The authorized IT and Facilities personnel are the only individuals with access to this area.

Non-Cloud servers, storage devices, and other equipment requiring both redundancy and security, are located in a Co-Location facility. This facility has the following physical characteristics.

- Single tenant building
- Mirrored UPS rooms supported by two mirrored diesel generation rooms
- Low Velocity, high-CFM ambient air N=1 cooling systems
- Conventional smoke and heat sensors
- Dry pipe sprinkler system
- Clean agent fire extinguishers throughout

The facility has the following Security in place.

- 24/7/365 on-site security personnel
- Access and credentials limited to IT personnel only
- Triple authentication including.
 - Mantraps, antipassback systems, biometric and proximity card scan
- Multi-factor biometric scanning (both fingerprint and iris)
- Card readers at each cage, limiting access to authorized personnel only
- High-Definition video surveillance with 90-day retention.

Computing Controls

This section describes the Company's controls for data, applications and networks controlled by the Company. Note that applications and databases are controlled, hosted by Solix, and supported by Solix's IT team.

Authorization/Authentication Access Controls

The Company's electronic access controls to access the Company's network, data and systems are restricted to the authorized Company staff and subcontractors. Authentication and access controls are enforced through strict policies and using Microsoft Active Directory as follows:

- A request to grant or change access to systems and data must be made in writing to the Company IT from the Human Resources Department or the staff's or subcontractor's department Manager. The Director must approve the request to grant or change rights.
- Termination of employment/services will generate a prompt request to the Company IT from the Human Resources Department or the person's department Director, Manager, or Process Integration member to disable all system and physical access privileges for the person.
- Access to all data and systems will require an individual User ID and password.
- Passwords must adhere to "strong" password guidelines (minimum of 8 characters, inclusion of special characters, 90-day expiration, and no re-use of passwords for 24 iterations).
- User accounts are intruder locked after five failed logs in attempts and can only be unlocked by the Company IT or through a secure self-service portal by answering a series of self-configured validation questions.
- System and data restrictions are enforced using Microsoft Active Directory Group Policy Object (GPO) settings and a desktop security and patch manager.
- Quarterly reviews of account access and permissions are performed by the Company security group specifically the Security Support Senior Analyst.

Computer and Network Infrastructure Security

Networks and computer systems are a primary point of infiltration in attempts to compromise or illegally access data. The Company adheres to best practices regarding network and computer security. The Company's network is protected using dual Cisco ASA firewall technology to prevent unauthorized access to corporate resources. The firewalls are configured in failover mode in order to ensure redundancy of access and security. The Company firewalls are configured using Network Address Translation (NAT). The NAT conceals the IP addresses of the machines behind the firewalls in order to prevent external devices from initiating connections to internal networked machines. Demilitarized Zone (DMZ) network segments separate the Corporate Local Area Network (LAN) and data from the Internet and a state-of-the-art Intrusion Prevention/Detection system is in place to detect and protect against malicious activity on the corporate network.

The Company uses Mimesweeper for SMTP as a mail filtering technology. Mimesweeper is a Clearswift product that inspects incoming and outgoing email for spam, malicious content, and confidentiality. Incoming emails that are suspected of violating the content policies are quarantined and inspected by the recipient or the Company Security Analyst before it is released by the recipient. Outgoing emails that violate the Company content and confidentiality policies are quarantined and inspected by the Company Security Analyst in order to ensure that the email is not violating any security guidelines.

Redundant Baracuda appliances protect the Company workstations from accessing Internet content that could potentially infect workstations with viruses and malware. The Baracuda appliances also capture internet traffic that can be used to investigate internet traffic usage by the Company staff. The Company also has a comprehensive network/application scanning process along with a comprehensive patch management policy/practice to protect against security vulnerabilities.

The Company workstations run on the Windows 10 Operating Systems. User restrictions and access control policies are strictly enforced using Group Policy Objects (GPO) in Active Directory and are equal to the restrictions/policies described above in the Access Controls section. All workstations are deployed with a Security and Patch Manager, which includes Anti-virus/Anti-spyware engines and updated immediately to protect against virus and vulnerabilities. The Company policy requires that logged on workstations are not left unattended; however, to further ensure workstation security, workstations are automatically locked after 10 minutes of inactivity.

Data Loss Prevention

The Company employs and enforces data loss prevention policies and technologies in order to secure confidential data stored at the Company. The Company deploys encrypted hard drives in all laptops to protect data if a laptop is lost or stolen. All local workstations are configured to prevent the copy of data to USB tokens or USB hard drives and CD/DVDs. The Company uses remote hosting technology for telecommuting of staff. Remote hosting servers are configured to prevent remote access workstations from copying data and files to the remote workstations.

Input of protected information to the Company Internet websites are performed via a secure HTTPS web-based connection. HTTPS is a network protocol used to provide encrypted communications and secure identification of a network web server and secures the data as it is exchanged on online web user interfaces.

The transmission of sensitive data to and from subcontractors is performed using secure file transfer protocol (SFTP) or a cloud based secure file transfer service. SFTP or Https provides a secure channel for the transmission of data.

Backup

The Company uses a combination of disk backup and off-site replication for maximum protection against the loss of data that is housed as its data center. Nightly backups are performed to a disk backup with replication technology. The disk backup appliance encrypts the backup data for maximum security and then replicates the data to an equivalent remote disk backup system at the Company's disaster recovery data site over a Virtual Private Network (VPN).

The Company has verification and chain of custody policies and procedures to ensure that nightly backups and the replication process are completed successfully and securely. Daily automated email reports are sent to the data backup engineers for review. The engineers review and analyze the report for accuracy, completion, and data anomalies of backed up data. Procedures are in place so that the backup

engineer submits daily reports to his immediate supervisor summarizing the successes, failures, and corrective actions. Backups that are not successfully completed are corrected and rerun immediately. Restores of the backup tapes are also tested at the disaster recovery site during disaster recovery tests.

In addition to nightly backups, the Company uses replication technologies that copy real-time data from the Company data center to the Company's disaster recovery data center over the VPN. The replication routines continually synchronize data from the production servers to the disaster recovery replica server. The real time replication ensures that catastrophic failure during midday work hours will minimize loss of data that was input before the time of failure. In addition, the Company has implemented a Storage Area Network (SAN) transaction replication where production data is replicated near real-time to the back SAN located at the disaster recovery site.

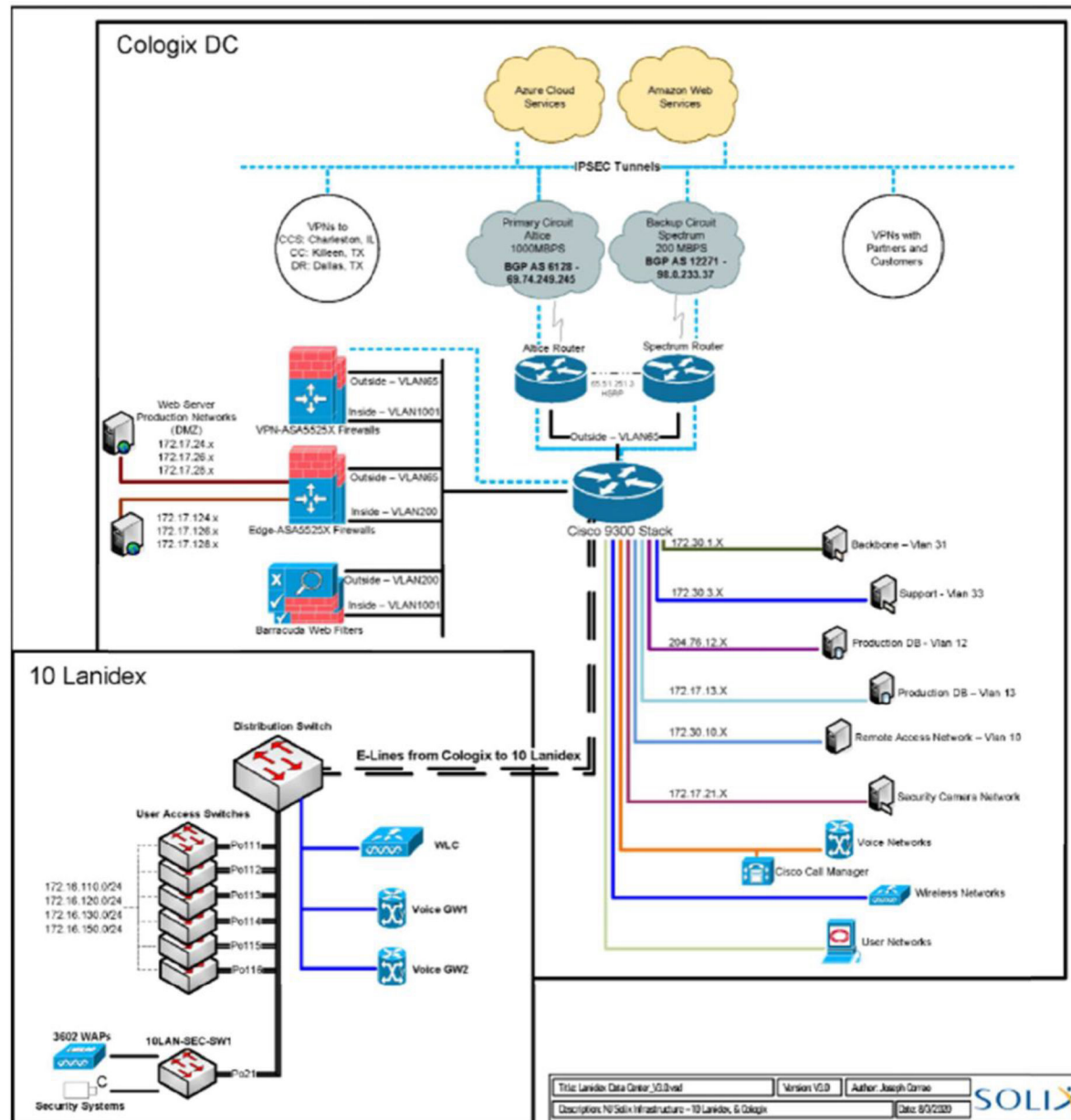
Remote Access

Remote Access to the Company systems is limited to authorized staff and contractors. The Company uses Microsoft Terminal Services and IPSec VPN client access to allow remote desktop access to the Company applications. Remote desktop clients must connect using 128-bit encryption to encrypt data transmission. Both access methods require authentication with username and password as well as a second authentication factor in the form of an RSA SecurID token.

Job Scheduling

The Company executes and monitors batch production jobs. Control-M is the batch Job Scheduler that allows server jobs to be run automatically on specific days at specific times, with dependencies for previous jobs completed and subsequent jobs on successful completion.

Solix's IT team is responsible for the administration of the software, servers, additions, changes, and terminations of users.



SECTION IV

Controls tested, Basis for Controls, Service Auditor Tests, Samples and Conclusion

TUSF CONTRACTUAL COMPLIANCE

August 31, 2020

Section IV: Controls tested, Basis for Controls, Service Auditor Tests, Samples and Test Conclusion

Ref	Solix's Control Tested	Contract Page #	Service Auditor's Tests	Sample or tested once during period	Conclusion
1	The TUSF administrator must create and maintain databases and record keeping processes and procedures for the TUSF that are separate and distinct from other funds.	PUCT/Solix Contract Attachment A.A	Observed screen shot	Once during the period under review	No exceptions were noted.
2	Solix to promptly refer inquiries from federal agencies, legislators, other public officials, media, or any person to the CA.	PUCT/SOLIX Contract Attachment A.B	Inspected email communications from Solix to the PUCT CA.	Once during the period under review.	No exceptions were noted.
3	The TUSF administrator will keep debt collection activities updated on a monthly basis as authorized by the PUCT.	PUCT/SOLIX Contract Attachment A.C	Inspected Solix reports and letters of communication.	1 st Quarter of 2020	No exceptions were noted.
4	Undistributed fund monies must be invested in secure short-term instruments designed to minimize risk while providing maximum liquidity and ROI.	PUCT/SOLIX Contract Attachment A.D	Inspected investment reports.	All 12 months of investment reports made to the PUCT.	No exceptions were noted.
5	The TUSF administrator will be required to perform incidental tasks necessary to support administration of the TUSF such as development and maintenance of mailing lists, procedure manuals, reconciliations of mailing lists, maintenance, testing and upgrades of the computer system, establishment of budgets, schedules, and cost tracking systems.	PUCT/SOLIX Contract Attachment A.E	Interviewed TUSF Manager and reviewed incidental tasks completed during the audit period.	Once during the period under review.	No exceptions were noted.

TUSF
CONTRACTUAL COMPLIANCE
August 31, 2020

Ref	Solix's Control Tested	Contract Page #	Service Auditor's Tests	Sample or tested once during period	Conclusion
6	From time to time, the TUSF administrator will be involved in resolving disputes regarding assessments and disbursements. In this capacity, it will be necessary for the TUSF administrator to either employ alternative dispute resolution techniques such as mediation and arbitration or have access to such expertise.	PUCT/SOLIX Contract Attachment A.F	Inspected disputes regarding assessments and disbursements.	Once during the period under review	No exceptions were noted.
7	The TUSF Administrator shall verify that all appropriate information has been provided by each ETP, local exchange company (LEC), other entities or agencies and shall issue disbursements to ETPs, LECs, other entities and agencies within 45 days of the due date of their reports except as otherwise provided.	PUCT/SOLIX Contract Attachment A.G	Inspected the verification process.	Once during the period under review.	No exceptions were noted.

TUSF
CONTRACTUAL COMPLIANCE
August 31, 2020

Ref	Solix's Control Tested	Contract Page #	Service Auditor's Tests	Sample or tested once during period	Conclusion
8	<p>Monthly Reports</p> <ul style="list-style-type: none"> A. Statement of Fund Performance B. Aging -Complete history of Accounts C. Collections Activity D. Bank Reconciliation E. Cash Flow - Breakdown of Cash F. Cash Flow with backup G. Data Month and Activity H. STAP Check Register I. Disbursement Memo Copies for the Activity Month J. GL Trial Balance K. Payment Register L. Disbursement Reconciliation Report of Support M. Texas USF Interest Breakdown N. Statement letters <p>Quarterly Reports:</p> <ul style="list-style-type: none"> A. Delinquent Filers B. Transparency Reports 	<p>PUCT/SOLIX Contract Attachment A.</p> <p>Monthly Reports</p>	<p>Reviewed reports to identify if they were filed with the PUCT.</p>	<p>Once during the audit period</p>	<p>No exceptions were noted.</p>

TUSF
CONTRACTUAL COMPLIANCE
August 31, 2020

Ref	Solix's Control Tested	Contract Page #	Service Auditor's Tests	Sample or tested once during period	Conclusion
9	Contract Tasks				
9a.	Provide Annual Support form to carriers that receive High Cost and Small and Rural Support to attest that they are still entitled to the support they are receiving.	PUCT/SOLIX Contract Attachment A. Tasks	Reviewed annual support form – High Cost and Small & Rural support	Once during period under review	No exceptions were noted.
	Database Scrubs:				
9b.	Compare PUCT database to TUSF Administrators database to assure that everyone who is required to report TUSF is doing so. Follow up to resolve any open carrier's issues.	PUCT/SOLIX Contract Attachment A. Tasks	Review the Solix comparison effort.	Once during period under review	No exceptions were noted.
9c.	Compare FCC database to TUSF Administrators database to assure that everyone who is required to report TUSF is doing so. Follow up to resolve any open carrier's issues.	PUCT/SOLIX Contract Attachment A. Tasks	Review the Solix comparison effort.	Once during period under review	No exceptions were noted.
9d.	Annual Intra LATA verification by circuit. Carriers to provide contact name, email, and phone to verify that the circuits are still running	PUCT/SOLIX Contract Attachment A. Tasks	Reviewed circuit report	Once during period under review	No exceptions were noted.

TUSF
CONTRACTUAL COMPLIANCE
August 31, 2020

Ref	Solix's Control Tested	Contract Page #	Service Auditor's Tests	Sample or tested once during period	Conclusion
	Contractor Requirements				
10	All Reports and Invoices are due to the PUCT by the 25th of the month following the month in which they are incurred.	PUCT/SOLIX Contract Attachment A. Contractor Requirements	Test report timeliness.	March, April, and May 2020	No exceptions were noted.
11	Entities that are due money based on their RMT form submitted by the 25th of the month must be paid by the 10th of the following month. If the 10th falls on a weekend the first business day before the 10th is the payment deadline.	PUCT/SOLIX Contract Attachment A. Contractor Requirements	Test payment timeliness.	March, April, and May 2020	No exceptions were noted.
12	Contractor is required to have an on-line system for entities to submit their RMT forms. The PUCT must have access to that system and have the ability perform research and run reports.	PUCT/SOLIX Contract Attachment A. Contractor Requirements	Observe online system or test printed RMT	Once for period under review	No exceptions were noted.
13	Contractor is required to pay all invoices presented and approved by the PUCT and Texas Department of Assistive and Rehabilitative Services (DARS) administrative expenses within 10 calendar days.	PUCT/SOLIX Contract Attachment A. Contractor Requirements	Test payment timeliness.	March, April, and May 2020	No exceptions were noted.
14	Contractor is responsible for setting up a bank account separate from any other account for the sole purpose of administering the TUSF.	PUCT/SOLIX Contract Attachment A. Contractor Requirements	Reviewed bank statements	Once during period under review	No exceptions were noted.
15	Contractor is required to have a current \$2,000,000 letter of credit or performance bond on file with the PUCT for the duration of the contract.	PUCT/SOLIX Contract Attachment A. Contractor Requirements	Reviewed letter of credit or performance bond	Once during period under review	No exceptions were noted.
16	Contractor must submit an investment policy to be approved by the PUCT.	PUCT/SOLIX Contract Attachment A. Contractor Requirements	Reviewed investment policy	Once during period under review	No exceptions were noted.

TUSF
CONTRACTUAL COMPLIANCE
August 31, 2020

Ref	Solix's Control Tested	Contract Page #	Service Auditor's Tests	Sample or tested once during period	Conclusion
	Liquidated Damages				
17	If contractor breaches this agreement by failing to meet deadlines, payments to the entities receiving benefits under the TUSF programs could be compromised.	PUCT/SOLIX Contract Attachment A. Contractor Requirements	Reviewed liquidated damage payments to PUCT	No occurrences	No exceptions were noted.
	Security Policy				
18	Contractor shall provide notice to PUCT's Project Manager and PUCT's Information Security Officer as soon as possible following contractor's discovery or reasonable belief that there has been unauthorized use, exposure, access, disclosure, compromise, modification, or loss of sensitive or confidential information (Security Incident).	PUCT/SOLIX Contract Attachment A. Security Policy	Reviewed all security incidents reported to PUCT Project Manager	No occurrences	No exceptions were noted.
19	Within twenty-four (24) hours of the discovery or reasonable belief of a Security Incident, contractor shall provide a written report to PUCT's Information Security Officer detailing the circumstances of the incident and actions taken.	PUCT/SOLIX Contract Attachment A. Security Policy	Reviewed all security incidents reported to PUCT Project Manager	No occurrences	No exceptions were noted.

TUSF
CONTRACTUAL COMPLIANCE
August 31, 2020

Ref	Solix's Control Tested	Contract Page #	Service Auditor's Tests	Sample or tested once during period	Conclusion
20	Contractor shall comply with agency policies regarding building access and physical security as appropriate.	PUCT/SOLIX Contract Attachment A. Security Policy	Desk audit was performed.	n/a	No exceptions were noted.
21	Contractor shall comply with agency's Computer Services Security Policies as appropriate. PUCT will provide a copy of its Computer Services Security Policies by the effective date of the contract and updates, as applicable. Contractor shall conform to the State of Texas Security policies and procedures for handling data.	PUCT/SOLIX Contract Attachment A. Security Policy	Reviewed Solix Computer Services Security Policy	Once during period under review	No exceptions were noted.
22	In the event of a security breach where names, mailing addresses, birthdates, social security numbers, credit card information and driver's license data are disclosed, contractor will be responsible for notifying anyone affected by such a security breach.	PUCT/SOLIX Contract Attachment A. Security Policy	Reviewed notifications, if any.	No breaches were noted.	No exceptions were noted.

TUSF
INTERNAL CONTROL – PUCT SUBSTANTIVE RULES
August 31, 2020

Ref	Solix's Control Tested	PUCT Substantive Rule	Service Auditor's Tests	Sample or tested once during period	Conclusion
23	Solix is to verify the monthly per line support for each ILEC eligible to receive support.	SUBST. RULES ¶ §26.403 (f) (1) For each ILEC that is not electing under subsection (e)(6) of this section and that served greater than 31,000 access lines in this state on September 1, 2013, or a company or cooperative that is a successor to such an ILEC, the monthly per-line support that the ILEC is eligible to receive for each exchange on December 31, 2016 from the THCUSP is reduced: (A) on January 1, 2017, to 75 percent of the level of support the ILEC is eligible to receive on December 31, 2016; (B) on January 1, 2019, to 50 percent of the level of support the ILEC is eligible to receive on December 31, 2016; and (C) on January 1, 2019, to 25 percent of the level of support the ILEC is eligible to receive on December 31, 2016.	Inspected the PUCT Order for the approved amount of support and tested three telephone company RMT's for compliance with the PUCT Order. Agreed amounts to the SOLIX Data Month Line Report.	April 2020	No exceptions were noted.
24	Solix is to verify the monthly per line support for each ILEC ETP eligible to receive support.	SUBST. RULES ¶ §26.404 (g) (1) - For each ILEC ETP that is electing under PURA, Chapter 58 or 59 or a cooperative that served greater than 31,000 access lines in this state on September 1, 2013, or a company or cooperative that is a successor to such an ILEC, the monthly per-line support that the ILEC ETP is eligible to receive for each exchange on December 31, 2017 from the SRILEC USP is reduced: (A) on January 1, 2018, to 75 percent of the level of support the ILEC ETP is eligible to receive on December 31, 2017; (B) on January 1, 2019, to 50 percent of the level of support the ILEC ETP is eligible to receive on December 31, 2017; and (C) on January 1, 2020, to 25 percent of the level of support the ILEC ETP is eligible to receive on December 31, 2017..	Inspected the PUCT Order for the approved amount of support and tested sampled telephone company RMT's for compliance with the PUCT Order. Agreed amounts to the SOLIX Data Month Line Report.	April 2020	No exceptions were noted.

TUSF
INTERNAL CONTROL – PUCT SUBSTANTIVE RULES
August 31, 2020

Ref	Solix's Control Tested	PUCT Substantive Rule	Service Auditor's Tests	Sample or tested once during period	Conclusion
25	Solix is to verify the monthly per line support for each SRILEC USP eligible to receive support. Also, Solix is to verify the calculation of the base support noted in subsection (e) of this section. Solix is to verify annual reports submitted to the administrator that the ETP is qualified to participate in the Small and Rural ILEC USP.	SUBST. RULES §26.404(h)(1 and 3) (1) Monthly reporting requirement. An ETP shall report the following to the TUSF administrator on a monthly basis: (A) the total number of eligible lines for which the ETP seeks SRILEC USP support; and (B) a calculation of the base support computed in accordance with the requirements of subsection (e) of this section. (3) Annual reporting requirements. An ETP shall report annually to the TUSF administrator that it is qualified to participate in the Small and Rural ILEC Universal Service Plan.	Inspected monthly and annual reports as to SRILEC Support, the calculation of the base support and whether the ETP reported that it is qualified to participate in the SRILEC USP. Agreed amounts to the SOLIX Data Month Line Report.	Once during the period under review.	No exceptions were noted.
26	Solix is to verify the monthly per line support for each ILEC ETP eligible to receive support.	SUBST. RULES §26.405 (e)(2) Exchanges in which the ILEC ETP has a financial need for continued support. For each exchange that is served by an ILEC ETP that has filed a petition pursuant to subsection (f)(1) of this section and for which the commission has determined the ILEC ETP has a financial need for continued support, the commission shall set a monthly per-line support amount according to the following criteria. (A) The initial monthly per-line support amounts for each exchange shall be equal to: (i) the amount that the ILEC ETP was eligible to receive on December 31, 2016 for an ILEC ETP that receives support from the THCUSP; (ii) the amount that the ILEC ETP was eligible to receive on December 31, 2017 for an ILEC ETP that receives support from the SRILEC USP and that has not filed a request pursuant to subsection (g) of this section; or (iii) the new monthly per-line support amounts calculated pursuant to subsection (g) of this section for an ILEC ETP that has filed a request pursuant to subsection (g) of this section.	Inspected the PUCT Order for the approved amount of support by exchange and tested sampled telephone company RMT's for compliance with the PUCT Order. Agreed amounts to the SOLIX Data Month Line Report.	Once during the period under review.	No exceptions were noted.
27	Solix is to verify the monthly per line support for each ILEC ETP eligible to receive support.	SUBST. RULES §26.405 (e)(2) (B) Initial monthly per-line support amounts for each exchange shall be reduced by the extent to which the disbursements received by an ILEC ETP from the THCUSP or SRILEC USP in the twelve month period ending with the most recently completed calendar quarter prior to the filing of a petition pursuant to subsection (f)(1) of this section are greater than 80% of the total amount of expenses reflected in the summary of expenses filed pursuant to subsection (f)(1)(C) of this section. In establishing any reductions to the initial monthly per-line support amounts, the commission may consider any appropriate factor, including the residential line density per square mile of any affected exchanges.	Inspected the PUCT Order for the approved amount of support and tested sampled telephone company RMT's for compliance with the PUCT Order. Agreed amounts to the SOLIX Data Month Line Report.	Once during the period under review.	No exceptions were noted.

TUSF
INTERNAL CONTROL – PUCT SUBSTANTIVE RULES
August 31, 2020

Ref	Solix's Control Tested	PUCT Substantive Rule	Service Auditor's Tests	Sample or tested once during period	Conclusion
28	Solix is to verify the monthly per line support for each ILEC ETP eligible to receive support.	SUBST. RULES §26.405 (e)(2) (C) For each exchange with service supported by the THCUSP, monthly per-line support shall not exceed: (i) the monthly per-line support that the ILEC ETP was eligible to receive on December 31, 2016, if the petition was filed before January 1, 2016; (ii) 75 percent of the monthly per-line support that the ILEC ETP was eligible to receive on December 31, 2016, if the petition was filed on or after January 1, 2016, and before January 1, 2017; (iii) 50 percent of the monthly per-line support the ILEC ETP was eligible to receive on December 31, 2016, if the petition was filed on or after January 1, 2017, and before January 1, 2018; or (iv) 25 percent of the monthly per-line support that the ILEC ETP was eligible to receive on December 31, 2016, if the petition was filed on or after January 1, 2018, and before January 1, 2019.	Inspected the PUCT Order for the approved amount of support and tested sampled telephone company RMT's for compliance with the PUCT Order. Agreed amounts to the SOLIX Data Month Line Report.	Once during the period under review.	No exceptions were noted.
29	Solix is to verify the monthly per line support for each ILEC ETP eligible to receive support.	SUBST. RULES §26.405 (e)(2) (D) For each exchange with service supported by the SRILEC USP, monthly per-line support shall not exceed: (i) the monthly per-line support that the ILEC ETP was eligible to receive on December 31, 2017, if the petition was filed before January 1, 2017; (ii) 75 percent of the monthly per-line support that the ILEC ETP was eligible to receive on December 31, 2017, if the petition was filed on or after January 1, 2017, and before January 1, 2018; (iii) 50 percent of the monthly per-line support the ILEC ETP was eligible to receive on December 31, 2017, if the petition was filed on or after January 1, 2018, and before January 1, 2019; or (iv) 25 percent of the monthly per-line support that the ILEC ETP was eligible to receive on December 31, 2017, if the petition was filed on or after January 1, 2019, and before January 1, 2020.	Inspected the PUCT Order for the approved amount of support and tested sampled telephone company RMT's for compliance with the PUCT Order. Agreed to the SOLIX Data Month Line Report.	Once during the period under review.	No exceptions were noted.

TUSF
INTERNAL CONTROL – PUCT SUBSTANTIVE RULES
August 31, 2020

Ref	Solix's Control Tested	PUCT Substantive Rule	Service Auditor's Tests	Sample or tested once during period	Conclusion
30	Solix requires any ILEC awarded support under PURA to provide a copy of the final order detailing the amount of support to be paid. Solix will not disburse funds related to this program unless the final order is provided.	<i>SUBST. RULES § 26.406 (e)</i> Support to be provided to ILECs under PURA is initiated by the issuance of a final order from PUCT.	Inspected and tested on-line system for ILECs receiving support from PURA. Agreed amounts to the Solix Data Month Line Report.	Once during audit period.	No exceptions were noted.
31	Solix requires any ILEC awarded support under AFA to provide a copy of the formal order detailing the amount of support to be paid. Solix will not disburse funds related to this program unless the final order is provided.	<i>SUBST. RULES §26.408 (d)</i> Support to be provided to ILECs awarded Additional Financial Assistance (AFA) is initiated by the issuance of a final order from PUCT.	Interviewed Solix staff as to if any ILEC was awarded AFA. No ILEC Requested AFA.	Once during audit period.	No exceptions were noted.
32	Solix is to verify access lines served by competitive ETPs.	<i>SUBST. RULES §26.409 (d)(1)</i> No later than April 30 of each year, commission staff must report (A) The exchanges in which the number of access lines served by competitive ETPs has decreased by 50% from the number of access lines served in that exchange by competitive ETPs on December 31, 2016. (B) The number of access lines served by those competitive ETPs identified in subparagraph (A) of this paragraph on December 31, 2016.	Reviewed access line reports provided by Solix to PUCT Staff for the years 2016 versus 2019.	Once during audit period.	No exceptions were noted.
33	Solix is to verify information to support USF reimbursements for Certain IntraLATA Service.	<i>SUBST. RULES § 26.410 (d)</i> (1) An ILEC awarded support under this section shall provide the TUSF administrator: (A) the number of lines eligible for support; and (B) the ILEC's tariffed rate, as of January 1, 1998, for the service; and (C) the lowest rate offered for the service by any local exchange company electing incentive regulation under PURA Chapter 58. (2) Upon request of the commission, the ILEC awarded support under this section shall designate the basis on which it is establishing rates.	Inspected and tested on-line system for IntraLATA reimbursements. Agreed amounts to the SOLIX Data Month Line Report.	Once during audit period.	No exceptions were noted.

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INTERNAL CONTROL – PUCT SUBSTANTIVE RULES
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Ref	Solix's Control Tested	PUCT Substantive Rule	Service Auditor's Tests	Sample or tested once during period	Conclusion
34	Solix is to verify the required information supporting any amounts to be distributed for Lifeline Services.	<i>SUBST. RULES</i> ¶ §26.412 (g) (2) (C) (i) — (iii) (i) Initial reporting requirements. Lifeline providers shall provide the commission and the TUSF administrator with information demonstrating that it meets the requirements of this section. (ii) Monthly reporting requirements. Lifeline providers shall report monthly to the TUSF administrator the total number of qualified low -income customers to whom Lifeline Service was provided for the month by the Lifeline providers. Resale ETPs shall not report any customers whose Lifeline Services were purchased from an ILEC as a wholesale Lifeline Service offering. The ILEC from whom these lines were purchased will include those customers in its total number of qualified low -income customers reported to the TUSF administrator. Non -ETP Lifeline providers are excluded from this reporting requirement since they have elected not to receive any type of Lifeline support. (iii) Quarterly reporting requirements. Non -ETP certificated Lifeline providers shall report to the commission its Lifeline activity as required. Certificated non-ETPs shall use the Report of Lifeline Service Provided by Non-ETP's form located on the PUC website to provide this information.	Inspected and tested on-line system. Agreed amounts to the SOLIX Data Month Line Report.	Once during audit period.	No exceptions were noted.

TUSF
INTERNAL CONTROL – PUCT SUBSTANTIVE RULES
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Ref	Solix's Control Tested	PUCT Substantive Rule	Service Auditor's Tests	Sample or tested once during period	Conclusion
35	Solix reviews other reports required to be reported by ETP's.	<i>SUBST. RULES ¶§ 26.412 (g)(2)(C) (iv)</i> An ETP shall report any other information that is required by the commission of the TUSF administrator, including any information necessary to assess contributions to and disbursements from the TUSF.	Interviewed the Solix manager responsible for TUSF. No other reports required.	Once during the period under review.	No exceptions were noted.
36	Solix verifies that the vendor or service provider has registered with Solix.	<i>SUBST. RULES §26.415 (c)(1)</i> A vendor or service provider who accepts STAP vouchers shall register with the commission (Solix).	Verified registration.	5 vendors.	No exceptions were noted.
37	Solix verifies if a vendor or service provider is suspended or barred from doing business with the State of Texas or the federal government.	<i>SUBST. RULES §26.415 (c)(2)</i> A vendor or service provider that is suspended or barred from doing business with the State of Texas or with the federal government is not eligible to participate in this program.	Vendors are self-reporting their good standing in Texas.	Once during the audit period.	No exceptions were noted.
38	Solix verifies compliance with PUCT STAP procedures and identifies parties not eligible for reimbursement.	<i>SUBST. RULES §26.415 (c)(3)</i> Any vendor or service provider not in compliance with the commission's STAP procedures as posted and periodically updated on the commission's web site, within 30 days from the date the commission's procedures or changes thereto are posted, is not eligible to receive voucher reimbursements under the STAP.	Due to the HHSC system being changed on 9/1/2017, the system does not automatically update the Solix system. Thus, compared sampled vendors to relevant vouchers.	5 vendors.	No exceptions were noted.

TUSF
INTERNAL CONTROL – PUCT SUBSTANTIVE RULES
August 31, 2020

Ref	Solix's Control Tested	PUCT Substantive Rule	Service Auditor's Tests	Sample or tested once during period	Conclusion
39	Solix inspects copies of DHHS vouchers signed by vendors or representative prior to disbursement.	<i>SUBST. RULES §26.415 (c)(4) (A)(i)</i> TUSF disbursements shall be made only upon receipt from the vendor or service provider of the vendor's copy of the DHHS voucher signed by the vendor, or an authorized representative, in the space provided thereon.	We observed the process to select the representative by a drop-down menu of approved representatives. We also observed Solix's 3% verification every month to ensure that the signatures match the signature page provided.	Sample of 25 items.	No exceptions were noted.
40	Solix inspects receipts from a vendor or service provider showing proof of delivery prior to disbursement.	<i>SUBST. RULES §26.415 (c)(4) (A)(ii)</i> TUSF disbursements shall be made only upon receipt from the vendor or service provider of the vendor's proof of delivery of the device or service to the voucher recipient.	Vouchers were reviewed for customer signature. Vouchers with shipped product must include the shippers' proof of delivery.	Sample of 25 items.	No exceptions were noted.
41	Solix inspects invoices containing a description and the price charged for the device or service exchanged for the STAP voucher or service provider prior to disbursement.	<i>SUBST. RULES §26.415 (c)(4) (A)(iii)</i> TUSF disbursements shall be made only upon receipt from the vendor or service provider of a receipt that contains a description of the device or service exchanged for the STAP voucher and the price charged to the customer for the device or service exchanged.	Inspected invoices for the description of the device or service exchanged for the STAP voucher and the price charged.	Sample of 25 items.	No exceptions were noted.

TUSF
INTERNAL CONTROL – PUCT SUBSTANTIVE RULES
August 31, 2020

Ref	Solix's Control Tested	PUCT Substantive Rule	Service Auditor's Tests	Sample or tested once during period	Conclusion
42	Solix investigates whether the presentation of a STAP voucher represents a valid transaction for equipment or service under the STAP.	<i>SUBST. RULES §26.415 (c) (4) (B)</i> TUSF disbursements may also be subject to such other limitations or conditions as determined by the commission to be just and reasonable, including investigation of whether the presentation of a STAP voucher represents a valid transaction for equipment or service under the STAP.	Reviewed Solix's determination as to the transactions.	Once during the audit period.	No exceptions were noted.
43	Solix will present evidence of disputes to the DARS for the commission's final determination.	<i>SUBST. RULES §26.415 (c) (4) (C)</i> If a dispute arises as to whether the submitted documentation is sufficient to create a presumption of a valid STAP sales transaction, the commission will be the sole judge of the sufficiency of the documentation.	There were no disputed items.	Once during the audit period.	No exceptions were noted.
44	Solix provides reimbursement to vendors within 45 days after the STAP voucher and other documentation required is received by Solix.	<i>SUBST. RULES §26.415 (c) (4) (D)</i> The TUSF administrator shall ensure that reimbursement to vendors for STAP vouchers shall be issued within 45 days after the STAP voucher and other documentation required under subparagraph (A) of this paragraph is received by the TUSF administrator.	Inspected the voucher and its payment date. Compared the received date on voucher to the Solix created Paid Voucher report with the name of the recipient and voucher number. (Apr, May, and June).	Sample of 25 items.	No exceptions were noted.

TUSF
INTERNAL CONTROL – PUCT SUBSTANTIVE RULES
August 31, 2020

Ref	Solix's Control Tested	PUCT Substantive Rule	Service Auditor's Tests	Sample or tested once during period	Conclusion
45	Solix sends disputed items to DARS for their consideration to delay a payment to a vendor or service provider or whether the device or service is appropriate.	<i>SUBST. RULES §26.415 (c) (4) (E)</i> The commission may delay payment of a voucher to a vendor or service provider if there is a dispute regarding the amount or propriety of the payment or whether the device or service is appropriate or adequate to meet the needs of the person to whom the DHHS issued the voucher until the dispute is resolved.	No disputed items.	Once during the period.	No exceptions were noted.
46	Solix processes vouchers no sooner than ten working days from the date the customer received the device or service.	<i>SUBST. RULES §26.415 (c) (4) (F)</i> The commission shall process a voucher for payment no sooner than ten working days from the date the STAP customer received the device or service.	Inspected the STAP vouchers and reviewed voucher processing and compliance with payment date requirements.	Sample of 25 items.	No exceptions were noted.
47	Solix verifies refunds made by the vendor or service provider.	<i>SUBST. RULES §26.415 (c) (4) (G)</i> The vendor or service provider shall refund a reimbursement if the device is returned to the vendor within 30 days of receipt or if the service is not used by the STAP customer within 30 days of its availability.	Inspected refunds and compliance with payment date requirements.	Once during the period.	No exceptions were noted.
48	Solix verifies reimbursements on expired vouchers were not made.	<i>SUBST. RULES §26.415 (c) (4) (H)</i> A STAP vendor or service provider will not be reimbursed for a voucher that is submitted to the STAP administrator more than 120 days after the voucher's exchange date or the proof of delivery date.	Inspected vouchers for date compliance.	Sample of 25 items.	No exceptions were noted.

TUSF
INTERNAL CONTROL – PUCT SUBSTANTIVE RULES
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Ref	Solix's Control Tested	PUCT Substantive Rule	Service Auditor's Tests	Sample or tested once during period	Conclusion
49	Solix has an employee dishonesty policy included in its insurance coverage.	<i>SUBST. RULES ¶ §26.420 (d) (1) (C) Solix must be bonded or bondable.</i>	Inspected the Solix Certificate of Liability Insurance.	Once during the period of review.	No exceptions were noted.
50	Through the on-line system, Solix cross checks carriers authorized for disbursements to a list of ETPs supplied by the commission. Solix will not disburse funds to any carrier not on the authorized list.	<i>SUBST. RULES ¶ §26.420 (d) (2) (B & D) Solix ensures payments from the Fund are being made to Eligible Telecommunications Providers (ETPs), and verifies recipients comply with the section(s) for which they receive support.</i>	Inspected and tested the list of approved ETPs with disbursements to carriers authorized in accordance with the PUCT ETP listing and the calculation of TUSF Gross Assessment Amount.	Once during the audit period.	No exceptions were noted.
51	Forms submitted on-line by providers are calculated by Solix software.	<i>SUBST. RULES ¶ §26.420 (d) (2) (C) Calculate and collect the proper assessment amount from every provider and verify all providers are in compliance with the Public Utility Regulatory Act §56.022.</i>	Inspected and tested calculation of TUSF Net Remittance Amount.	Once during the audit period.	No exceptions were noted.

TUSF
INTERNAL CONTROL – PUCT SUBSTANTIVE RULES
August 31, 2020

Ref	Solix's Control Tested	PUCT Substantive Rule	Service Auditor's Tests	Sample or tested once during period	Conclusion
52	The online TUSF system electronically verifies each RMT for completeness. Also, Solix considers any adverse information that result from carrier audits prescribed by the commission.	<i>SUBST. RULES §26.420 (d) (2) (E & F)</i> Take steps, including audits, to ensure all providers subject to TUSF assessment and TUSF recipients accurately report required information.	Review Carrier audits done during the fiscal year. .	There were no carrier audits performed.	Recommendation – PUCT should have carrier audits performed.
53	Solix is to provide monthly reports to the CA of the PUCT. Solix is to email notifications to the PUCT on ETPs receiving funds.	<i>SUBST. RULES §26.420 (d) (2) (G & H)</i> Submitting periodic summary reports to the commission regarding the administration of the TUSF in accordance with specifications established by the commission; (H) Notifying the commission of any telecommunications providers that are in violation of any of the requirements of this section, §26.417 (ETP).	Reviewed monthly reports made by Solix to the CA.	Monthly.	No exceptions were noted.
54	Solix uses the approved rate from the latest PUCT order Solix modifies the RMT form to incorporate new rates and also sends a letter to each carrier communicating the impending assessment rate change.	<i>SUBST. RULES §26.420 (e) (2)</i> Determine an assessment rate to be applied to all telecommunications providers on a periodic basis which shall be recommended to PUCT. Once the PUCT approves a rate, ensure this is communicated to all carriers and the proper rate is being applied.	Inspected and tested disbursements using the approved assessment rate. Inspected the notification sent to carriers. Identified that the assessment rate is reviewed annually.	Reviewed printed RMTs for the correct rate. Rate did not change for the 8/31/2020 audit period.	No exceptions were noted.

TUSF
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Ref	Solix's Control Tested	PUCT Substantive Rule	Service Auditor's Tests	Sample or tested once during period	Conclusion
55	Solix to maintain a reserve for late payments and un-collectibles.	<i>SUBST. RULES § 26.420 (e) (C)</i> Reserve for contingencies. The TUSF administrator shall establish a reserve for such contingencies as late payments and un-collectibles in an amount authorized by the commission.	Inspected the TUSF balance sheet.	Once during the period of review.	No exceptions were noted.
56	Payments are to be made no later than 45 days from due date.	<i>SUBST. RULES §26.420 (g) (3) (A)</i> The TUSF administrator shall verify that the appropriate information has been provided by each ETP, local exchange company (LEC), other entities or agencies and shall issue disbursements to ETPs, LECs, other entities and agencies within 45 days of the due date of their reports except as otherwise provided.	Reviewed participant listed by carrier type to find late payments. Interviewed TUSF manager on the process to ensure timely payments.	Tested in disbursement sample	No exceptions were noted.
57	Solix reviews all RMTs for the "primary communications business" designation indicated on each RMT and cross references with the payphone providers listed in the PUCT website.	<i>SUBST. RULES ¶ §26.420 (f) (2) (E) (i)</i> Pay telephone service providers are exempt from the TUSF assessment.	Inspected and tested RMTs. Solix stated no pay phone providers are reporting to TUSF.	Not applicable.	No exceptions were noted.
58	The PUCT submits updated listings of qualified entities to Solix in order to update their database. Disbursements are only made to qualified entities approved by the commission.	<i>SUBST. RULES ¶ §26.420 (g) (1) (A - C)</i> Qualification of entities to receive funds from TUSF is determined by PUCT. The administrator relies on PUCT qualification to determine whether to disburse funds to each entity.	Inspected approval documentation provided by the PUCT to Solix.	Once during the period of review.	No exceptions were noted.
59	Disbursements are reviewed and are only allowed for authorized entities.	<i>SUBST. RULES ¶ §26.420 (g) (1) (D)</i> PUCT, Texas Department of Human Services, Texas Department of Assistance and Rehabilitative Services (formerly Texas Commission for the Deaf and Hard of Hearing), Technology and Inclusion, Inc. (Austin School), and Solix are eligible for reimbursement of costs directly associated with the implementation of the TUSF.	Inspected invoices from authorized entities approved by the PUCT.	Tested in relevant disbursements June 2020	No exceptions were noted.

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Ref	Solix's Control Tested	PUCT Substantive Rule	Service Auditor's Tests	Sample or tested once during period	Conclusion
60	Solix obtains the list of approved ETPs from the PUCT.	<i>SUBST. RULES</i> §26.420 (g)(2)(A) Reporting requirements. ETPs. An ETP shall report to the TUSF administrator as required by the provisions of the section or sections under which it qualifies to receive funds from the TUSF.	Inspected the ETP list.	Once during the period of review.	No exceptions were noted.
61	Solix obtains the list from the PUCT of qualifying entities for various funds the entity is entitled to receive.	<i>SUBST. RULES</i> §26.420 (g)(2)(B) Other entities. A qualifying entity shall report to the TUSF administrator as required by the provisions of the section or sections under which it qualifies to receive funds from the TUSF.	Inspected the list of qualifying entities.	Once during the period of review.	No exceptions were noted.
62	Solix reviews expenses from qualifying agencies on a monthly basis.	<i>SUBST. RULES</i> §26.420 (g)(2)(C) Agencies. A qualifying agency shall report its qualifying expenses to the TUSF administrator each month.	Inspected monthly invoices from qualifying agencies.	Tested in Sampled disbursements.	No exceptions were noted.

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Ref	Solix's Control Tested	PUCT Substantive Rule	Service Auditor's Tests	Sample or tested once during period	Conclusion
63	Solix limits true ups to a 3-year period for under-reporting and a one-year period for over-reporting.	<i>SUBST. RULES §26.420 (h)</i> - The assessment amount determined pursuant to subsections (e) and (f) of this section shall be subject to true-up as determined by the TUSF administrator and approved by the commission. True ups shall be limited to a three-year period for under-reporting and a one-year period for over-reporting.	Interviewed TUSF manager as to the treatment of true ups.	Once during the period of review.	No exceptions were noted.
64	All documentation related to TUSF is stored in a separate locked file and in the Solix server.	<i>SUBST. RULES ¶ §26.420 (j) (1-3)</i> PUCT and Solix are subject to the Texas Open Records Act (1) An individual telecommunications provider who submits information to the TUSF administrator shall be responsible for designating it as proprietary at the time of submission. Information considered to be confidential by law, either constitutional, statutory, or by judicial decision, may be properly designated as proprietary. (2) An individual telecommunications provider who submits information designated as proprietary shall stamp on the face of such information "PROPRIETARY PURSUANT TO PUC SUBST. R. §26.420(j)". (3) The TUSF administrator may disclose all information from an individual telecommunications provider to the telecommunications provider who submitted it or to the commission and its designated representatives without notifying the telecommunications provider.	Interviewed TUSF project manager to determine if TUSF data was locked in desks and how proprietary data was treated.	Once during the period of review.	No exceptions were noted.

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Ref	Solix's Control Tested	Solix Procedure #	Service Auditor's Tests	Sample or tested once during period	Conclusion
65	Solix will review the PUCT website to search for companies that have been approved with a Service Provider Certificate of Operating Authority and contact for reporting. Solix also monitors the FCC locator list for new carriers.	Solix TUSF Collection Procedures 2.a.	Inspect Solix documentation of monitoring FCC and PUCT web sites.	Once during the period of review.	No exceptions were noted.
66	Solix will notify all contributors of any change to the approved assessment factor via e-mailings.	Solix TUSF Collection Procedures 2.b.	Inspect Solix notifications to contributors.	Once during the period of review.	No exceptions were noted.
67	Solix TUSF staff will accumulate and store carrier data, including revenue data and TUSF telecommunications service provider information, in a separate and distinct database.	Solix TUSF Collection Procedures 2.c.	Inspected data base documentation.	Once during the period of review.	No exceptions were noted.

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Ref	Solix's Control Tested	Solix Procedure #	Service Auditor's Tests	Sample or tested once during period	Conclusion
68	Companies required to pay into the fund will enter data online and send payments to Solix TXUSF lockbox on the 25 th day of each month, or the closest business day. Solix will send payments to qualified carriers on the 10 th day of the following month, or the closest business day.	Solix TUSF Collection Procedures 2.d.	Inspected payments made to carriers.	Randomly selected 10 Disbursements as part of the test of controls	No exceptions were noted.
69	Carriers remit payments to the TUSF on a monthly basis.	Solix TUSF Collection Procedures 2.e.	Inspected receipts from RMT submissions of payments from Texas entities in the "Test of Controls – Receipts" audit procedures.	Randomly selected 10 receipts as part of the test of controls.	No exceptions were noted.
70	Solix Accounts Receivable department receives copies of checks and electronic fund transfer confirmations from the bank. Vouchers are attached when they have been submitted with the payment.	Solix TUSF Collection Procedures 2.f.	Inspected receipts from RMT submissions of payments from Texas entities in the "Test of Controls – Receipts" audit procedures.	Randomly selected 10 receipts as part of the test of controls.	No exceptions were noted.

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Ref	Solix's Control Tested	Solix Procedure #	Service Auditor's Tests	Sample or tested once during period	Conclusion
71	Solix Accounts Receivable staff will compare payments received with the TUSF Carrier Remittance worksheets and vouchers when submitted at time of payment.	Solix TUSF Collection Procedures 2.g.	Inspected and tested TUSF payments versus submitted RMTs.	Randomly selected 10 receipts as part of the test of controls.	No exceptions were noted.
72	Carriers enter the TUSF remittance worksheets into an on-line database. Customer addresses and phone numbers are updated and changed in the database by the carrier if necessary.	Solix TUSF Collection Procedures 2.h.	Inspected on-line data base by accessing database.	Once during audit period.	No exceptions were noted.
73	The Accounts Receivable Handoff Control Report is generated and approved by the Manager-Billing and Collections and Accounts Payable and reconciled to the Epicor Import Manager Validation report, prior to posting to Epicor.	Solix TUSF Collection Procedures 2.i.	Inspected Handoff Control reports.	Randomly selected 10 receipts as part of the test of controls. Tested Handoff Control reports in sampled receipts	No exceptions were noted.

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Ref	Solix's Control Tested	Solix Procedure #	Service Auditor's Tests	Sample or tested once during period	Conclusion
74	Separate responsibility codes in the general ledger are maintained for revenue and expenses for the Solix TUSF activity.	Solix TUSF Collection Procedures 2j.	Inspected the Solix chart of Accounts.	Once during audit period.	No exceptions were noted.
75	A Solix Treasury employee reconciles the monthly bank statement to the deposit amounts entered by Solix Accounts Receivable into Epicor and the disbursement amounts entered by Solix Accounts Payable into Epicor every month.	Solix TUSF Collection Procedures 2k.	Inspected reconciliations as part of the financial audit.	Twelve months.	No exceptions were noted.
76	Once each quarter, an initial late notice for non-filers is mailed via regular mail to each delinquent carrier. This mailing is sent 45 days after the due date of each quarter. No late payment charges will be applied.	Solix TUSF Collection Procedures 2l.	Inspected late notices.	Once during audit period.	No exceptions were noted.

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Ref	Solix's Control Tested	Solix Procedure #	Service Auditor's Tests	Sample or tested once during period	Conclusion
77	Accounts that are more than 60 days delinquent in paying the TUSF are reported to the PUCT each month for further action.	Solix TUSF Collection Procedures 2m.	Inspected report of the delinquent accounts and aging reports.	Once during the audit period.	No exceptions were noted.
78	After cash is applied and worksheets are uploaded, Accounts Receivable produces monthly statements for each customer with non-zero balance. Manager-Billing and Collections reviews the statements for accuracy before mailing to the customers.	Solix TUSF Collection Procedures 2n.	Inspected monthly statements.	March, April, and May 2020	No exceptions were noted.
79	Monthly account statements are sent to all carriers that have a balance greater than \$1.00.	Solix TUSF Collection Procedures 2o.	Inspected monthly statements.	March, April, and May 2020	No exceptions were noted.

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Ref	Solix's Control Tested	Solix Procedure #	Service Auditor's Tests	Sample or tested once during period	Conclusion
80	Procedures for the preparation, review, and approval of TUSF settlements are established and maintained in accordance with management's criteria (Desk Procedures) and the Contract.	Solix TUSF Disbursement Procedures 3.a.	Inspected desk procedures.	Once during audit period.	No exceptions were noted.
81	Solix Accounts Payable staff will ensure that funds are distributed from the TUSF, as authorized by the PUCT, in the following order: contractors, Solix, Texas Relay System Provider (TRS), STAP vendors, administrative costs to DARS, PUC and ETP's.	Solix TUSF Disbursement Procedures 3.b.	Inspected monthly disbursements to entities in the ordered process.	Monthly.	No exceptions were noted.
82	Solix administrative expenses are transferred from the TUSF in accordance with the procedures detailed in the contract.	Solix TUSF Disbursement Procedures 3.c.	Inspected Solix administrative expenses as per contract.	Monthly.	No exceptions were noted.

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Ref	Solix's Control Tested	Solix Procedure #	Service Auditor's Tests	Sample or tested once during period	Conclusion
83	Solix State Fund Operations will monitor fund levels to ensure they do not fall below the level necessary to pay all amounts due.	Solix TUSF Disbursement Procedures 3.d.	Inspected monthly reports to ascertain if fund levels fell to unacceptable levels.	12 monthly reports.	No exceptions were noted.
84	TUSF support payments to carriers will be made via check or ACH on the 10 th day of every month, or the closest working day. TUSF payments to TRS and DARS are paid via ACH within 10 days. Specialized Equipment Vendors are paid via ACH within 45 days. ACH transactions are prepared and executed by authorized Solix staff in a secure environment.	Solix TUSF Disbursement Procedures 3.e.	Inspected monthly disbursements to carriers and qualified recipients identified by PUCT. Verified that appropriate internal approvals were obtained, traced disbursement to bank statement, traced disbursement to general ledger, other supporting documents, and verified disbursements to ach/wire transfers and PUCT approval.	Randomly selected 10 disbursements as part of the test of controls.	No exceptions were noted.
85	Solix tracks disbursements paid to individual programs as separate and unique accounts.	Solix TUSF Disbursement Procedures 3.f.	Inspected disbursements were paid and accounted for as separate and unique accounts.	Once during audit period.	No exceptions were noted.

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INTERNAL CONTROL – SOLIX CONTROLS & DISBURSEMENT PROCEDURES
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Ref	Solix's Control Tested	Solix Procedure #	Service Auditor's Tests	Sample or tested once during period	Conclusion
86	Solix will monitor the PUCT website to find companies that have been approved with a Service Provider Certificate of Operating Authority and contact them for reporting. Solix also monitors the FCC locator list for new carriers. This fund is not limited to Carriers.	Solix TUSF Disbursement Procedures 4.a.	Inspected Solix documentation showing approval by PUCT and FCC locator list.	Once during audit period.	No exceptions were noted.
87	Solix TUSF staff will assist in developing the assessment factor, as needed, based upon TUSF ordered methodology and submit to the TUSF for approval. The PUCT may use the Solix recommended rate or approve an alternate assessment rate.	Solix TUSF Disbursement Procedures 4.b.	Inspected Solix documentation in the development of the assessment factor.	Once during audit period.	No exceptions were noted.
88	Solix TUSF staff prepares monthly financial status reports for the PUCT which include an analysis of the current TUSF receipts, disbursements, investment result and fund balance.	Solix TUSF Disbursement Procedures 4.c.	Inspected Solix monthly reports.	Monthly.	No exceptions were noted.

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INTERNAL CONTROL – SOLIX CONTROLS & DISBURSEMENT PROCEDURES
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Ref	Solix's Control Tested	Solix Procedure #	Service Auditor's Tests	Sample or tested once during period	Conclusion
89	Texas payment vouchers are handled by Accounts Receivable who process the forms in a separate and distinct area from other Solix functions to ensure proprietary protection.	Solix TUSF Disbursement Procedures 5.a.	Inspected the work area of TUSF personnel at Solix.	Once during audit period.	No exceptions were noted.
90	Solix uses a card key system to limit access to the building to only authorized individuals. User ID security with password is necessary to access the LAN where all data is stored and to access the accounting software.	Solix TUSF Disbursement Procedures 5.b.	Observed card key system used by Solix. Inspected list of user ids.	Once during audit period.	No exceptions were noted.
91	All Solix staff working with TUSF data are required to sign a "non-disclosure agreement" prohibiting disclosure of individual company and proprietary data.	Solix TUSF Disbursement Procedures 5.c.	Inspected the Solix NDA by employee.	Once during audit period.	No exceptions were noted.

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Ref	Solix's Control Tested	Solix Procedure #	Service Auditor's Tests	Sample or tested once during period	Conclusion
92	The General Accounting group will maintain all supporting documentation used in the development of the monthly financial status reports and the annual financial statements to the TUSF in a protected environment off-site.	Solix TUSF Disbursement Procedures 6.a.	Inspected the lease for the off-site location.	Once during audit period.	No exceptions were noted.
93	The database maintained for TUSF information is backed up nightly.	Solix TUSF Disbursement Procedures 6.b.	Inspected nightly backup report.	Once during audit period.	No exceptions were noted.
94	A formal Disaster Recovery Plan is established and tested periodically to ensure processing would continue in the event of a disaster.	Solix TUSF Disbursement Procedures 6.c.	Inspected the Solix Disaster Recovery Plan.	Once during audit period.	No exceptions were noted.
95	Solix will maintain insurance coverage in the amounts specified in Article 13 of the contract between the PUCT and Solix throughout the effective dates of the contract.	Solix TUSF Disbursement Procedures 7.a	Inspected the Solix insurance policy.	Once during audit period.	No exceptions were noted.

TUSF
INTERNAL CONTROL – SOLIX DATA CENTER CONTROLS
August 31, 2020

Ref	Solix's Control Tested	Solix Procedure #	Service Auditor's Tests	Sample or tested once during period	Conclusion
96	General access to data center in the Solix facility is provided using approved card keys. Visitor access is monitored 24x7 by reception personnel or security guard and a visitor log is maintained. Access to the Data Center is controlled by the use of a card key. Only authorized individuals are provided with a card key for physical access to the Solix Data Center. Approved job positions are identified in Data Center Procedures. New requests must be approved by the CIO. Requests/approvals are kept in the Spiceworks ticketing system.	Solix Physical Security & Environmental Controls– 12.1-12.3	Conducted a site visit to the data center and witnessed a card key being used for entry. Observed the list of individuals who had access to the data center. Obtained a picture of our tour from the security camera in the data center and reception area.	Once during the audit period.	No exceptions were noted.
97	Closed Circuit Television cameras are installed within the Data Center and throughout the Solix facility. Surveillance camera images are monitored by Manager – Facilities and/or the reception personnel or security guard and retained for 90 days.	Solix Physical Security & Environmental Controls– 12.4	Reviewed CCTV photo of our visit to the data center and of the front desk reception area images of visitors.	Once during the audit period.	No exceptions were noted.
98	The Solix data center is equipped with Uninterrupted Power Supply units and generators, which provide backup for critical servers, Computer Room Air Conditioning units and fire detection and FM200 based fire suppression system.	Solix Physical Security & Environmental Controls– 12.5	Reviewed emergency documentation.	Once during the audit period.	No exceptions were noted.

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INTERNAL CONTROL – SOLIX DATA CENTER CONTROLS
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Ref	Solix's Control Tested	Solix Procedure #	Service Auditor's Tests	Sample or tested once during period	Conclusion
99	Current maintenance contracts exist for the CCTV units, generators, UPS units, CRAC units, fire detection and fire suppression systems and periodic inspections and preventative maintenance are performed.	Solix Physical Security & Environmental Controls– 12.6	Reviewed current maintenance contracts.	Once during audit period.	No exceptions were noted.
100	Access rights to the Solix network are granted in accordance with job-related needs and follow documented processes. Internal users must be assigned both a unique network user ID and a password. Requests are approved by the Director responsible for the fund.	Solix Logical Security – 13.1	Reviewed list of internal user IDs with respective access rights.	Once during audit period.	No exceptions were noted.
101	Solix Network User IDs and passwords are subject to the logical security controls.	Solix Logical Security – 13.2	Reviewed Network User IDs and interviewed personnel about password requirements.	Once during audit period.	No exceptions were noted.

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INTERNAL CONTROL – SOLIX DATA CENTER CONTROLS
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Ref	Solix's Control Tested	Solix Procedure #	Service Auditor's Tests	Sample or tested once during period	Conclusion
102	Remote access to the Solix network is provided only to authorized users using Remote Desktop Protocol (RDP) over an encrypted channel. Users are authenticated using a two-factor authentication token.	Solix Logical Security – 13.3	Reviewed the list of authorized users with RDP devices.	Once during audit period.	No exceptions were noted.
103	Network accounts for terminated users are deleted / disabled / rendered inaccessible from the Solix network upon notification from Management as per corporate policy.	Solix Logical Security – 13.4	Reviewed list of terminated users.	Once during audit period.	No exceptions were noted.
104	Antivirus software is installed on Microsoft Windows servers and workstations on the Solix network, to provide protection against virus threats. The virus definition file updates occur automatically, and the software has been configured to perform real time protection.	Solix Logical Security – 13.5	Reviewed licenses for antivirus software.	Once during audit period.	No exceptions were noted.

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INTERNAL CONTROL – SOLIX DATA CENTER CONTROLS
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Ref	Solix's Control Tested	Solix Procedure #	Service Auditor's Tests	Sample or tested once during period	Conclusion
105	Firewalls segregate trusted and non-trusted Solix network segments and connections across the environment. Network traffic is analyzed by stateful inspection firewalls.	Solix Logical Security – 13.6	Reviewed firewall schematic.	Once during audit period.	No exceptions were noted.
106	Firewall configuration settings are used to help ensure that the Solix network internal addresses are not available on the Internet. Firewalls are configured to deny all traffic unless it is explicitly allowed. Internet facing firewalls are configured to deny reconnaissance-type traffic.	Solix Logical Security – 13.7	Reviewed firewall schematic.	Once during audit period.	No exceptions were noted.
107	Intrusion Detection System (IDS) monitors the in-coming network traffic at Solix to identify network attacks / threats and alert the network team to take corrective actions.	Solix Logical Security – 13.8	Reviewed IDS reports.	Once during audit period.	No exceptions were noted.
108	Security Awareness Training is provided to Solix staff on an annual basis.	Solix Logical Security – 13.9	Interviewed employees and reviewed security training emails.	Once during audit period.	No exceptions were noted.

TUSF
INTERNAL CONTROL – SOLIX DATA BACKUP AND RETENTION
August 31, 2020

Ref	Solix's Control Tested	Solix Procedure #	Service Auditor's Tests	Sample or tested once during period	Conclusion
109	Backup of in-scope data on Solix Servers is performed on a daily basis, is encrypted for confidentiality, and retained for 30 days. Backup job failures are monitored, escalated, investigated and problems resolved to ensure successful backup in the next cycle.	Solix Data Backup & Retention – 14.1-2	Reviewed a backup report for various processes.	Once during audit period.	No exceptions were noted.
110	Backups are written to the Cloud on a daily basis. Information stored on Internet accessible or cloud systems is encrypted at rest and the encryption is FIPS 140-2 compliant.	Solix Data Backup & Retention – 14.3	Reviewed CLOUD backup reports.	Once during audit period.	No exceptions were noted.

TUSF
INTERNAL CONTROL – SOLIX CHANGE MANAGEMENT
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Ref	Solix's Control Tested	Solix Procedure #	Service Auditor's Tests	Sample or tested once during period	Conclusion
111	A Change Request is received by IT from the Business Unit. An Estimate is provided to Business Unit for the requested change.	Solix Change Control Process – 15.1	Examined a change request pertaining to a Safe Harbor Rate.	Once during audit period.	No exceptions were noted.
112	Business Unit Process Director approves the Estimate and priorities are discussed to understand the importance of the current requested change as compared to the changes currently being worked on. If the Estimate is not accepted, the Change Request is cancelled.	Solix Change Control Process – 15.2	Examined emails approving the estimate.	Once during audit period.	No exceptions were noted.
113	Development is completed and the Developer tests that the change meets the need described in the change request.	Solix Change Control Process – 15.3	Examined emails indicating the change meets the described in the change request.	Once during audit period.	No exceptions were noted.
114	Changed components are migrated to the QA environment where the Business Analyst tests the change meets the need described in the change request. Any issues are reviewed and if a change is required, the components are returned to the Developer to repeat step 15.3	Solix Change Control Process – 15.4	Examined emails indicating the change components are properly migrated and the analyst tests that the change meets the change request.	Once during audit period.	No exceptions were noted.
115	Upon Business Analyst verification of the change, the changed components are migrated to the UAT environment where the Business Unit tests the change meets the need described in the change request. Any issues are reviewed & if a change is required, the components are returned to the Developer to repeat steps 15.3 and 15.4. Upon successful completion of testing, the Business Unit confirms their test results & recommends a Production Migration.	Solix Change Control Process – 15.5	Examined emails showing migration was completed.	Once during audit period.	No exceptions were noted.

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INTERNAL CONTROL – SOLIX CHANGE MANAGEMENT
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Ref	Solix's Control Tested	Solix Procedure #	Service Auditor's Tests	Sample or tested once during period	Conclusion
116	The IT manager of the project would request approval to migrate the changed components to the Production environment via email. Upon approval of the Business Unit Director, the migration would be scheduled.	Solix Change Control Process – 15.6	Examined emails showing migration was completed.	Once during audit period.	No exceptions were noted.
117	When verification that the changed components have been successfully migrated to the Production Environment, the IT Manager of the project would request verification of the changed functionality in Production from the Business Unit. Upon the verification of success, the Change Request is complete.	Solix Change Control Process – 15.7	Examined an uploaded .pdf file showing the verification of changed components that were migrated to the Production Environment.	Once during audit period.	No exceptions were noted.
118	CYBERSECURITY - To determine whether the TUSF Administrator has procedures in place as it relates to cybersecurity.	PUCT Audit Contract	Reviewed CYBER SECURITY procedures.	Once during audit period	No exceptions were noted.